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Message Text

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51
ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-03 PRS-01 USIA-15 IO-13 RSR-01 /173 W
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R 151459Z AUG 73
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6851

C O N F I D E N T I A L BONN 11640

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: GERMAN FOREIGN EXCHANGE MARKET

1. DURING A VISIT THIS WEEK TO FRANKFURT BANKERS, THE FINANCIAL ATTACHE FOUND SENTIMENT VERY MUCH CHANGED ON THE FOREIGN EXCHANGE MARKETS. AS ONE DEALER DESCRIBED IT "WHILE PREVIOUSLY WHENEVER THE DOLAR ROSE SOMEWHAT OUR CUSTOMERS WANT TO SELL DOLLARS AND RECOUP THEM LATER AT A BETTER PRICE, NOW WHENEVER THE DM RISES VIS A VIS THE DOLLAR PEOPLE WANT TO SELL IT IN THE HOPE OF BEING ABLE TO REBUY IT LATER FOR LESS DOLLARS." DEALERS ALSO REPORT THAT CUSTOMERS WHO HAVE BEEN SHORT ON THE DOLLAR FOR A LONG TIME, ARE NOW BEGINNING TO BECOME VERY ANXIOUS TO COVER THEIR POSITIONS BEFORE THE DOLLAR RISES EVEN FURTHER. MOST IMPORTANT, INTEREST RATE CALCULATIONS NOW CLEARLY FAVOR THE DOLLAR AND THE MARKETS ARE AGAIN NORMALLY RESPONDING TO THIS. MORE CUSTOMERS ARE REPORTED TO "BEING HURT" BY THE DOLLAR'S RISE THANBY THE PREVIOUS FALL AGAINST WHICH THEY HAD COVERED THEM-SELVES MORE GENERALLY AND COMPLETELY.
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2. DESPITE THE VERY STRONG CURRENT DOLLAR, MANY DEALERS REMAIN SOMEWHAT SKEPTICAL AS TO THE FUTURE. FEW EXPECT THE DOLLAR TO FALL BELOW DM 2.30 AGAIN, BUT MANY THINK IT WILL REMAIN IN THE DM 2.35-2.45 RANGE WITH SETBACKS IF IT RISES HIGHER. REASONS GIVEN FOR THIS VIEW ARE THE EXPECTATION OF VERY TIGHT MONEY IN GERMANY IN SEPTEMBER WITH THE BUNDESBANK POSSIBLY PUSHING INTEREST RATES UP EVEN FURTHER IN THE FALL IF GERMAN WAGE SETTLEMENTS TURN OUT IN ITS VIEW TO BE OVERLY INFLATIONARY AND INTERNATIONAL INTEREST RATE DEVELOPMENTS LEAVING IT SOME ROOM TO MANEUVER. SOME DEALERS ALSO BELIEVE THAT THEY ARE SEEING SOME INDICATIONS OF CENTRAL BANK DOLLAR SALES IN THE MARKET. THESE DEALERS FEEL THAT SUCH SALES WILL INCREASE IF THE DOLLAR RISES FURTHER SINCE IN THEIR VIEW BOTH THE GERMAN AND US AUTHORITIES PROBABLY WILL BE INTERESTED IN LIMITING THE RISE OF THE DOLLAR FROM THE POINT OF VIEW OF BUSINESS CYCLE AND BALANCE OF PAYMENTS POLICY RESPECTIVELY.
CASH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BONN11640
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS CASH
Errors: N/A
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730837/aaaabbaw.tel
Line Count: 81
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by izenbei0>; APPROVED <12-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GERMAN FOREIGN EXCHANGE MARKET
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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